

ISLAND BUSINESS NEWS

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CREDIT CRUNCH • March 2009

Friend or Foe?

By Krista T Walsh, CFCP, President of KC Collect Collection Agency

It is often hard for the small business owner to play the role of the friendly sales agent as well as the adamant credit manager while maintaining the customer. Unfortunately when extending credit, there is no definite way to guarantee payment. With a proper credit policy in place, this should decrease receivables and make it less likely to for the business owner to turn into the enemy when faced with collecting the overdue account.

Many business owners, especially NEW business owners, are so eager for a sale that they neglect document or discuss payment. The business does want to offend the new customer by asking for a method of payment. If it is difficult for a customer to obtain credit, they will take their business elsewhere. Lack of proper credit policies is the major reason that businesses have overdue accounts. Small Businesses are infamously guilty of having a week or non-existent collection policy. Some businesses have a policy, but use it inconsistently, which yields less than favorable results. As one of the keys to any successful business, receivables management must be taken into consideration when venturing out as an entrepreneur. Unfortunately this key element is often overlooked as the entrepreneur's attention is pulled in different directions.



If you obtain as much information as possible from the customer when extending credit makes recovery of the account more likely if it becomes past due. In order to successfully manage debt it is customary to ask potential customers for credit references. In smaller communities it is suggested that you network with fellow companies, thus creating a mutual exchange of information. Most companies are more than willing to share information on past delinquents to help you to learn from their mistakes.

Information Wanted When Extending Credit

- \$ Request a credit check on your customer.
- \$ Ask for more than a post office box. Post office boxes can be changed or closed, ask for a civic or street address.
- \$ Ask for a customer's date of birth and/or social security number. This will help you to trace them in the future.
- \$ Hold two people responsible for the debt by asking for both spouses names on the account
- \$ Inquire about their employment history. How are they going to pay you if they are under or unemployed?

Remember: The customer that has a problem with getting their credit checked is the customer that you **DO NOT** want.

Every business must develop and maintain a strong credit policy. Each time a customer leaves a business with goods or services that business has now taken on the role of a bank.

Credit Policy Musts

- \$ Determine to whom you are going to extend credit (i.e. anyone, new customers, etc).
- \$ Determine a suitable credit limit. This could vary depending on the customer.
- \$ Ensure all staff is aware of the credit policy and are aware that it **MUST** be enforced.
- \$ Decide upon the terms? i.e. 30 days? 60 days? Pay upon receipt?
- \$ Decide upon penalties to be imposed if an account becomes past due.
- \$ What actions are you going to take when there is non-payment?

In rural areas, recovering outstanding debt becomes another challenge for the striving business owner. As you strive to build your customer base, it is suggested that another employee that is not a customer service representative take on the daunting task of collections. This delegation will enable the owner to maintain strong relations with the customer while still enforcing the recovery of the debt. In most cases this is where the Collection Professional or third party agency is required. The collection expert may opt to use the "Soft Touch" approach to recover an account while keeping a positive relationship between the client and debtor. This non-aggressive method gently encourages the debtor to reveal the reasons for the overdue account. Most times it requires the debtor to confide their financial situation to the collection professional and together devise a payment plan suitable for both parties.

Before Submitting An Overdue Account to A Third Party

- \$ Determine if the debt is collectable. As the debt ages, the chance of collection decreases dramatically.
- \$ Attempt to contact the debtor by phone and set a deadline for payment.
- \$ Send a final notice informing the debtor that you are forced to forward the account to a third party and/or to take legal action.



Credit policies have the utmost importance in successful business management. Businesses that implement sound credit policies gain respect, grow and expand within the economy.

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